

**COMMENTS OF THE LESI EUROPEAN COMMITTEE ON
THE COMMISSION DOCUMENT**

**“EVALUATION REPORT ON THE TRANSFER OF
TECHNOLOGY
BLOCK EXEMPTION REGULATION N° 240/96”**

This document presents the initial comments of the European Committee of Licensing Executives Society International (LESI) on the Commission Evaluation Report on the Transfer of Technology Block Exemption Regulation n° 240/96 (the “Evaluation Report”).

LESI, which has 11 000 members worldwide (more than 3 500 in Europe) is the largest professional organisation in the intellectual property area. Its members come mainly from business: other members work in universities, the public sector and as consultants or attorneys.

The present document has been prepared in response to the Commission’s request for comments on the Evaluation Report. Because of the short period of time available, it has not been possible to complete all consultations necessary to make an official statement on behalf of LES International. It is therefore a statement made solely on behalf of the European Committee.

The Committee notes with satisfaction the statements made in the Evaluation Report concerning the contribution of intellectual property rights (IPRs), and more specifically the licensing of IPRs, to economic progress, including the contribution of IPR licensing to increasing competition. The Committee also welcomes the desire, manifested in the Evaluation Report, of simplifying the 1996 Technology Transfer Block Exemption (“TTBE”).

1. General Considerations – the Commission’s Approach

In reviewing the Evaluation Report, the Committee notes that two principal considerations underlie the Commission’s analysis and proposals:

- (i) that the terms of the TTBE be consistent with a proper economic analysis of the effect of technology transfers in the relevant market – with particular emphasis on whether a license agreement is made between competitors or non-competitors; and
- (ii) that the terms of the TTBE be coherent with the recent approach of the Commission towards block exemptions, including those dealing with vertical restraints, research and development agreements and specialisation agreements, in which the market shares of the parties involved are considered to be a major relevant factor in considering whether and on what terms an agreement should benefit from a block exemption.

2. General Considerations – the Committee’s Approach

The Committee believes that another factor namely the structure of Article 81 of the Treaty, is of greater importance than those mentioned above in deciding on the proper approach to a block exemption for technology transfers.

2.1 Burden of Proof and Market Shares

Under Article 81, as interpreted by the European Court and the Commission, the determination of whether there is a violation of Article 81(1) is, and has to be, essentially a formal matter : does an agreement contain restrictions which could restrict competition, and which might affect trade between member States ? If such a finding is made, and this does not require any significant economic analysis, the burden of proof shifts to the enterprises to demonstrate why an exemption should be granted under Article 81(3), failing which the agreement is null and void, as provided for in Article 81(2).

This situation is fundamentally different from that faced by enterprises in the United States.

In the US antitrust system (and assuming that the agreement does not contain any clauses which are *per se* illegal), the burden of proof is always on the authorities, or those challenging the agreement, to show that, in its proper economic context, the agreement significantly affects competition.

Because of the absence of market share thresholds in nearly all cases, the effect of the current TTBE, where enterprises conform to its terms by including only white and no black clauses, is in effect to reverse the normal burden of proof on enterprises under Article 81. The burden of proof falls on the Commission, should it seek to withdraw the benefit of the block exemption in an individual case, and, in such circumstances, market shares and other tools of economic analysis are relevant. In its present form, it could be said that the TTBE brings the European competition approach to licensing agreements very close to the US approach.

This meets the needs of enterprises for legal security while ensuring that the public policy interest in effective competition can be pursued.

The need for legal security, in the context of the structure of Article 81 will become even greater if the current notification system is replaced by decentralised control of agreements at national level.

Introducing market share thresholds as a condition for benefiting by the TTBE (whether for licenses between competitors or between non-competitors) means that the block exemption will not perform all its essential functions since it places the burden of proof, in terms of economic analysis, back on enterprises seeking to have an agreement approved rather than placing it on those seeking to challenge the agreement. The Committee believes that in Europe, as in the U.S., licensing agreements which do not contain certain “hardcore” restrictions should be in all cases considered as *prima facie* legal from a competition view-point (i.e, benefit from the Block Exemption) and that the

burden of proving otherwise should rest in all cases with those seeking to challenge such agreements (including the Commission, where it proposes to withdraw the benefit of the block exemption in individual cases).

2.2 Technology transfer agreements and distribution agreements are different

In a distribution agreement, the grantor authorises another person to resell its products and, in order to further such sales efforts, the grantor may incidentally provide the distributor with a trade mark license.

In a patent or know-how license agreement one party provides another with access to, and the right to use, an intangible asset whose value to society lies in its being properly exploited and whose value to the grantor lies precisely in the control which the grantor is able to exercise, by law or by contract, on such access and right of use. Particularly in the case of unpatented know-how but also in the case of patents, the grantor's control over its asset will only be effective to the extent its license agreements are enforceable. In addition, patent or know-how licenses will generally require a greater investment effort on behalf of the licensee in both production and distribution that would be the case with distributors.

A distribution agreement which violates competition requirements and therefore fails for lack of enforceability can in most cases be readjusted without major harm to the parties. If a patent or know-how license fails for unenforceability because it does not meet competition requirements, irreparable harm may well be caused to the grantor's ability to control and exploit what is, after all, its property and, in many cases, its most valuable property. The need for legal security is therefore much greater in the case of patent and technology license agreements than it might be in the case of distribution agreements.

As already mentioned in paragraph 2.1 above, the present TTBE, by not including market share thresholds except in very limited circumstances, protects the interests of both parties to license agreements by in effect shifting the burden of proof to those challenging the compatibility of an agreement with competition law requirements while ensuring that the presence of white clauses and the absence of black clauses can meet the basic needs of licensor and licensee.

2.3 Licenses between competitors and those between non competitors

The Evaluation Report states that the impact of a license agreement on competition may well be different according to whether the parties to the agreement are competitors or not and, referring to US policy in this matter, suggests that more stringent requirements be required of agreements between competitors than those between non competitors.

The Committee sees merit in this approach – provided however that the TTBE continues to place the burden of proof on those seeking to challenge the compatibility of the license agreement with competition requirements and such burden is not placed on enterprises to show compatibility. In this view, the different treatment of licences between competitors and licences between non-competitors would not arise as a basis for obtaining the benefit of the block exemption but rather where it is sought to

withdraw the benefit of the block exemption based, at least partly, on economic considerations.

3. General Considerations – Committee’s suggestions

For the reasons indicated above, the Committee suggests that the benefit of the TTBE be extended, as at present, to all patent, know-how and mixed licenses, exclusively on the basis of the terms of the relevant agreement and without reference to the position of the parties on the market or vis-à-vis each other. Such economic considerations would be relevant where it is sought to withdraw the benefit of the block exemption on an individual basis and, in such case, the tests to be applied such as market shares and the distinctions to be made (such as, for example, licenses between competitors and licenses between non-competitors) could well be set out in more detail in the Block Exemption Regulation itself. However, the Committee believes that this aspect could be better dealt with in a set of guidelines similar to the US Antitrust Guidelines for Licensing Operations – the more so since by retaining the TTBE without market share or similar economic tests, the European Antitrust authorities would be in essentially the same position as their US counterparts as far as the crucial burden of proof issue is concerned.

4. Specific issues

In addition to the matters discussed above, the Evaluation Report raises a number of specific issues and asks for views on the proper treatment in the TTBE of a number of clauses usually or frequently found in technology licensing agreements.

The Committee will not address all of those issues and clauses here: it has not been possible to solicit a wide enough range of views from within LES in the time available to us. However, the Committee will seek to present the Commission with its views on all of these issues in the very near future.

At this stage, the Committee wishes to make the following points:

4.1 Extending the TTBE to other IPRs

Although at first sight, the suggestion in the Evaluation Report that the TTBE be extended to other IPR’s, including trade marks and copyright (particularly in software), might seem attractive, the Committee recommends that very careful consideration be given to this question before a decision is made to broaden the scope of the TTBE.

Because of the structure of Article 81 of the Treaty, the fact of including a particular activity or agreement within the scope of a block exemption agreement carries the implication that such activity or agreement can be in itself restrictive of competition.

Where licenses of software are given as part of a patent or know-how license the software portion should, like the rest of the subject-matter of the license, be covered by the TTBE. However, the vast majority of “stand-alone” software licenses have no actual or potential effects on competition. They simply provide the licensee with a tool for doing what the licensee wants to do with the software, limited only by the software’s

own technical capabilities and subject only to such restrictions as are consistent with the owner's IP interest in an easily-copyable product.

The Committee believes that such pure software licenses do not, in principle, come within the purview of competition law and would not favour their inclusion in a competition block exemption.

In the case of trade mark licenses, the Committee notes that such licenses are often granted as part of a patent or know-how license, a distribution agreement or a franchise agreement or a combination of such arrangements. Such agreements are themselves the subject matter of competition rules, including block exemptions, and the Committee believes this is sufficient.

4.2 Site licenses

The Committee recognises that site licenses, which are frequently employed in the chemicals sector and some similar sectors requiring a huge fixed investment in plant and machinery, could raise competition issues.

The Committee believes that rather than being blacklisted, site licenses which do not restrict output should be allowed while those which restrict output should be subject to economic analysis where it is sought to withdraw the benefit of the block exemption.

4.3 Tying Clauses

The Committee believes that the role of tying clauses in patent and technology licenses is different to the role they play in distribution agreements and the approach to such clauses in the TBBE should not necessarily be similar to the approach taken in the vertical agreements block exemption. Tying which is justified for proper technical exploitation of the licensed patent or know-how should not be challenged. More extensive tying requirements could be subject to economic analysis in the context of a move to withdraw the benefit if the block exemption in individual cases.

4.4 "No Challenge" Clauses

The Committee would favour an approach which distinguishes between those circumstances where "no challenge" clauses are difficult to justify on competition grounds from those, such as settlement arrangements in IP disputes, where such clauses can be an integral part of an arrangement which is pro-competitive.

4.5 Multiparty licenses

The Committee favours extending the scope of the TTBE to cover multiparty licenses, but would urge that the provisions dealing with such licenses be as simple as possible.

5. Conclusion

The Committee believes that while the current TTBE needs to be clarified and simplified, it does fulfil, in its present form, the basic need of enterprises for legal security while enabling the Commission to challenge agreements which it considers should not benefit by the exemption. This is achieved by making the benefit of the block exemption available on the basis of the content of each contract and without reference to outside circumstances such as market share or the relationship of the parties to each other.

These outside circumstances could be relevant, and be the subject of a set of guidelines, to indicate when and in what circumstances the Commission would seek to withdraw the benefit of the block exemption in individual cases.

This structure of an internally autonomous block exemption plus guidelines for challenging the benefit of the block exemption would place European enterprises in a position relatively similar to that prevailing in the US, and would become particularly useful if the current system of compulsory notification to the Commission were to be replaced, as proposed by the Commission itself, by decentralised control exercised by national courts or authorities.

The Committee hopes that its observations will be helpful to the Commission and will be pleased to participate in any future stages of the Commission's review of the TTBE.